

GRSD SEWER AUTHORITY

**FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION**

December 31, 2006 and 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name GRSD SEWER AUTHORITY	County BERRIEN
Fiscal Year End DECEMBER 31, 2006	Opinion Date MAY 11, 2007	Date Audit Report Submitted to State MAY 23, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) SCHAFER & LAYHER, PLLC		Telephone Number 269-983-0131	
Street Address 805 VAN BRUNT AVENUE		City ST. JOSEPH	State MI
		Zip 49085	
Authorizing CPA Signature 		Printed Name MICHAEL W. LAYHER	License Number 21500

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of GRSD Sewer Authority
New Buffalo, Michigan

We have audited the accompanying financial statements of the GRSD Sewer Authority as of December 31, 2006 and 2005, and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of the GRSD Sewer Authority as of December 31, 2006 and 2005, and the changes in financial position and cash flows, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 5 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Schaffer & Layher".

Schaffer & Layher
St. Joseph, Michigan
May 11, 2007

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

About the Facility

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The Authority operates a three (3) million gallon per day sanitary sewage treatment plant for its owner municipalities. The connected service population is approximately 13,500.

Financial Highlights

The Authority's total net assets at December 31, 2006 were \$15,337,696, of which \$14,272,898 was invested in capital assets. At December 31, 2005, net assets were \$15,265,301.

The Authority's total expenses were \$1,686,721, while total revenues were \$1,759,116 (\$1,724,310-operating; \$34,806-non-operating.)

Overview of the Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *supplemental information*. The basic financial statements include only one kind of statement as the Authority is a special purpose governmental entity and no reconciling items exist between the entity and a government-wide statement.

Government-wide statements and the fund financial statements are presented as one set as they both provide the long-term and short-term information about the Authority's financial status. The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Financial Analysis of the Authority as a Whole

The following table represents condensed financial information about the Authority's financial position. Total net assets increased by \$72,395 from 2005 to 2006 with net assets of \$15,337,696 at December 31, 2006 and \$15,265,301 at December 31, 2005.

	<u>2006</u>	<u>2005</u>
Current Assets	\$ 1,124,319	\$ 1,142,170
Restricted Assets	-	500,000
Capital Assets	14,272,898	13,772,243
Total Assets	<u>\$ 15,397,217</u>	<u>\$ 15,414,413</u>
Current liabilities	<u>\$ 59,521</u>	<u>\$ 149,112</u>
Net Assets		
Invested in capital assets	\$ 14,272,898	\$ 13,772,243
Restricted for capital purposes	-	500,000
Unrestricted	1,064,798	993,058
Total Net Assets	<u>\$ 15,337,696</u>	<u>\$ 15,265,301</u>

The following table represents the condensed financial information about the Authority's revenues and expenses. The change in net assets was \$72,395 and \$125,128 for the years ended December 31, 2006 and 2005, respectively.

	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 1,724,310	\$ 1,396,834
Operating expenses	1,686,721	1,373,140
Operating income	<u>\$ 37,589</u>	<u>\$ 23,694</u>
Non-operating income	34,806	101,434
Change in net assets	<u>\$ 72,395</u>	<u>\$ 125,128</u>

Analysis of Financial Position

The current year net assets increased \$72,395, with a few significant factors affecting net assets during the year as discussed below:

- 1) Operating revenues exceed operating expenses by \$37,589, with an additional \$34,806 of non-operating interest income received.
- 2) The Authority's investment in capital assets had a net increase of \$500,655 from \$918,044 of acquisition and construction of capital assets less \$417,389 of current year depreciation.

Results of Operations

The Authority's operating income decreased by \$52,733 over last year as a result of the following:

- 1) Operating revenues increased \$327,476 or 23.44% as a result of increased flows from the tributary governmental units and new connection fees from the casino hook-ups.
- 2) Operating expenses increased \$313,581 or 22.83% as the plant continues to manage those costs in the wake of rising natural gas and electrical. Management recognizes that control over year to year operating costs is essential to the long-term financial health of the facility. Efforts to control operating costs are ongoing.
- 3) Non-operating interest income has steadily decreased the Authority's overall revenue base, due to the large amount of dollars available from the conduit bond proceeds and capital contributions from the governmental units for the plant expansion project erodes. This decrease will continue to negatively impact future non-operating interest income.

Fund Expenditures Budget vs. Actual**Expenditures**

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2006	\$ <u>1,460,161</u>	\$ <u>1,686,721</u>	\$ <u>(226,560)</u>
December 31, 2005	\$ <u>1,452,163</u>	\$ <u>1,373,140</u>	\$ <u>79,023</u>

Fund Revenues Budget vs. Actual**Revenues**

<u>Period</u>	<u>Original and Final Budget</u>	<u>Final Audit</u>	<u>Variance Audit vs. Final Budget</u>
December 31, 2006	\$ <u>1,460,161</u>	\$ <u>1,759,116</u>	\$ <u>(298,955)</u>
December 31, 2005	\$ <u>1,459,406</u>	\$ <u>1,498,268</u>	\$ <u>(38,862)</u>

Original versus Final Budget

There were no changes or amendments from the original preliminary budget and the final budget.

Capital Improvements and Funding Requirements

Funding needs for capital improvements is a significant element in the Authority's financial plan. The Authority completed an approximately \$10 million plant expansion, which has been fully funded through contributions from the constituent municipalities contributions and the issuance of conduit bonds. Ongoing funding for capital improvements will be generated from operating revenues and year-end reconciling amounts from the municipalities. The improvements are expected to be less than 2006 levels, but the Authority does continue to expand and improve the total system.

Economic Factors and Next Year's Budget

The funding composition for the treatment, operation, and maintenance for the Authority consists of establishing rates charged to the governmental units and ultimately the ratepayers are customers of the water treatment plant. The separate governmental units are responsible for collecting their own charges from the residents and other users within their district.

The Authority's plan for budget monitoring includes review of the budget vs. actual expenses on a monthly basis to determine if financial goals are being met. If financial expectations are not being met, options to establish alignment include: 1) procedures to establish increased rates to governmental units and charges for certain services so that maintenance and operations can continue uninterrupted; 2) a reduction of certain services performed for the local units and a reduction in capital expenditures on infrastructure needs. With the limiting factor on financial resources being what the ratepayer is able to pay, raising rates needs to be closely monitored throughout the year.

Comparative Information

The financial report shows comparison data. The Authority expects to continue to present full comparative statements.

Contacting the Authority's Management

The financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. For questions about this report or additional information, contact the Authority at 10831 Kruger Road, New Buffalo, MI 49117.

STATEMENTS OF NET ASSETS
DECEMBER 31, 2006 AND 2005

	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 638,867	\$ 559,789
Certificates of deposit	-	329,348
Accounts receivable	482,214	195,557
Due from other fund	-	54,240
Prepaid insurance	3,238	3,236
Total current assets	<u>\$ 1,124,319</u>	<u>\$ 1,142,170</u>
Restricted assets:		
Cash and cash equivalents	\$ -	\$ 500,000
Capital Assets	<u>\$ 14,272,898</u>	<u>\$ 13,772,243</u>
Total Assets	<u><u>\$ 15,397,217</u></u>	<u><u>\$ 15,414,413</u></u>
Liabilities:		
Accounts payable	\$ 57,917	\$ 92,887
Due to other fund	-	54,240
Payroll taxes payable	1,604	1,985
Total Liabilities	<u>\$ 59,521</u>	<u>\$ 149,112</u>
Net Assets		
Invested in capital assets	\$ 14,272,898	\$ 13,772,243
Restricted for capital purposes	-	500,000
Unrestricted	1,064,798	993,058
Total Net Assets	<u>\$ 15,337,696</u>	<u>\$ 15,265,301</u>
Total Liabilities and Net Assets	<u><u>\$ 15,397,217</u></u>	<u><u>\$ 15,414,413</u></u>

The notes to the financial statements are an integral part to these financial statements.

GRSD SEWER AUTHORITY**STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Sewer User Fees:		
City of New Buffalo	\$ 371,815	\$ 321,948
Chikaming Township	332,836	321,743
New Buffalo Township	100,379	107,996
Lake Charter Township	297,282	278,562
City of Bridgman	237,749	227,822
Weesaw Township	3,257	3,257
Other Fees:		
Waste hauling	84,435	71,214
Services rendered	296,557	64,292
Total operating revenues	<u>\$ 1,724,310</u>	<u>\$ 1,396,834</u>
Operating Expenses		
Salaries and wages	\$ 478,508	\$ 462,821
Payroll taxes	37,695	36,222
Employee benefits	159,914	249,763
Depreciation	417,389	145,254
Office supplies	1,773	1,801
Operating supplies	104,595	72,864
Professional fees	16,914	16,512
Legal	1,408	3,864
Board fees	4,200	4,620
Sludge disposal	56,556	53,995
Communications	15,594	15,991
Training and transportation	2,371	2,827
Insurance and bonds	84,268	62,775
Utilities	236,781	185,882
Equipment and sewer repairs	55,549	45,973
Vehicle repairs	7,452	6,788
Uniforms	5,725	4,648
Miscellaneous	29	540
Total operating expenses	<u>\$ 1,686,721</u>	<u>\$ 1,373,140</u>
Net operating income	<u>\$ 37,589</u>	<u>\$ 23,694</u>
Non-operating income (expenses):		
Sale of fixed assets	\$ 2,050	\$ 1,415
Interest income	32,756	100,019
Total non-operating income (expense)	<u>\$ 34,806</u>	<u>\$ 101,434</u>
Change in net assets	<u>\$ 72,395</u>	<u>\$ 125,128</u>
Net Assets, Beginning of Year	<u>15,265,301</u>	<u>15,140,173</u>
Net Assets, End of Year	<u><u>\$ 15,337,696</u></u>	<u><u>\$ 15,265,301</u></u>

The notes to the financial statements are an integral part to these financial statements.

STATEMENTS OF CASH FLOWS
DECEMBER 31, 2006 AND 2005

	2006	2005
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,437,653	\$ 1,413,931
Cash payments to suppliers for goods and services	(826,177)	(1,291,751)
Cash payments to employees for services	(478,508)	(462,821)
Net cash provided by (used in) operating activities	\$ 132,968	\$ (340,641)
Cash Flows from Non-Capital Financing Activities		
Contributed capital	\$ -	\$ -
Cash Flows from Capital and Related Financing Activities		
Payments for acquisition or construction of capital assets	\$ (918,044)	\$ (4,594,332)
Proceeds from sale of assets	2,050	1,415
Interest paid on loans	-	-
Net cash used in capital and related financing activities	\$ (915,994)	\$ (4,592,917)
Cash Flows from Investing Activities		
Decrease (increase) in certificates of deposit	\$ -	\$ (476)
Change in restricted assets	500,000	4,935,494
Interest received on investments	32,756	100,019
Net cash provided by investing activities	\$ 532,756	\$ 5,035,037
Net Increase(Decrease) in Cash and Cash Equivalents	\$ (250,270)	\$ 101,479
Cash and Cash Equivalents-Beginning of year	889,137	787,658
Cash and Cash Equivalents-End of year	\$ 638,867	\$ 889,137
Reconciliation of Operating Income to		
Net Cash Provided by (Used In) Operating Activities		
Operating income(loss)	\$ 37,589	\$ 23,694
<i>Adjustments to reconcile operating income(loss) to net cash provided by operating activities</i>		
Depreciation	417,389	145,254
<i>Change in assets and liabilities</i>		
Accounts receivable	(286,657)	17,097
Prepaid insurance	(2)	729
Accounts payable	(34,970)	(527,743)
Payroll taxes payable	(381)	328
Net Cash Provided by (Used In) Operating Activities	\$ 132,968	\$ (340,641)

Noncash operating, capital, and investing activities:

During the year there were no noncash activities.

The notes to the financial statements are an integral part to these financial statements.

NOTE 1. NATURE OF ORGANIZATION

The GRSD Sewer Authority (the "Authority") was established by the Townships of New Buffalo, Lake Charter, and Chikaming, and the City of New Buffalo. The City of Bridgman was admitted under a separate agreement in 2004. The Authority was incorporated on October 13, 1971 as the Galien River Sanitary District (the "District"), under the provisions of Act 233, Public Acts of Michigan of 1955, as amended. The Authority is governed by a board comprised of six (6) members, with one (1) representative appointed from each of the five (5) constituent municipalities and one (1) independent member elected by the other five (5) members. The Authority was formed to operate, maintain, administer, and manage a sewage collection and disposal system pursuant to Act 185, Public Acts of 1957, as amended, for the benefit of the constituent municipalities.

The GRSD Authority operates a 3 million gallon per day (MGD) sanitary sewage treatment plant and site to serve all of the local units, who have capacity rights and share the cost of the plant. The capacity rights are allocated as follows:

	Final Expansion
Lake Charter Township	16.6%
City of New Buffalo	21.6%
Chikaming Township	28.6%
New Buffalo Township	16.6%
City of Bridgman	16.6%
	<u>100.0%</u>

The Authority has the power to carry out the purposes of the plant and to acquire private property by purchase, construction, lease, gift, devise or condemnation and may hold, manage, control, sell, exchange or lease such property. The Authority may enter into a contract or contracts providing for the acquisition, purchase, construction, improvement, enlargement, extension, operation and financing of a sewage disposal system. They may issue negotiable bonds, secured by the contractual full faith and credit pledges of each contracting municipality. The Authority is also responsible for establishing rates charged to the governmental units. The separate governments are responsible for establishing and collecting their own charges from the residents and other users within their district.

NOTE 1. NATURE OF ORGANIZATION, CONCLUDED

The Authority's financial statements include the accounts of all the Authority's operations. The criteria for including organizations as component units within the Authority's reporting entity, as set forth in section 2100 of the Governmental Accounting Standards Board's ("GASB") *Codification of Government Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Authority holds the corporate powers of the organization
- The Authority appoints a voting majority of the organization's board
- The organization has the potential to impose a financial benefit/burden on the Authority
- There is fiscal dependency by the organization on the Authority.

Based on the aforementioned criteria, the Authority has no component units.

The Authority has implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* ("GASB 34"). The Authority's financial statements, as a result of GASB 34 are as follows:

- A Management's Discussion and Analysis ("MD&A") section providing analysis of the Authority's overall financial position and results of operations has been included.
- Basic financial statements prepared using the full accrual accounting for all of the Authority's activities have been provided.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units. The Authority also applies Financial Accounting Standard Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

A. Fund Accounting

The Authority uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority's functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority has only one fund, a proprietary fund.

Proprietary (Enterprise) Fund

This fund accounts for operations: a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expensing including depreciation) of providing goods and services to the general public on a continuing basis are financed or recovered primarily through user charges; or b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The proprietary fund uses the accrual basis of accounting.

Revenues: Exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses – Expenses are recognized at the time they are incurred.

C. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Authority considers all highly liquid investments available for current operations with an original maturity of three (3) months or less to be cash equivalents.

D. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond the current year, are recorded as prepaid items using the consumption method.

E. Inventories

Inventories, not held for resale, are accounted for on a purchase basis. Under the purchase method, inventories are treated as expenditures when acquired. Accordingly, no asset is reflected in the financial statements.

F. Capital Assets and Depreciation

All capital assets are capitalized at cost using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Costs relating to maintenance and repairs are charged to expense when they do not add value to the assets or materially extend the life, whereas those for renewals and betterments, when significant in amount, are capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 – 20 Years
System Improvements	20 – 40 Years
Vehicles	7 – 10 Years

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of (capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets). Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the activity of the proprietary fund. The Authority's operating revenues are sewer usage fees, waste hauling, and services rendered.

I. Contributions of Capital

Contributions of capital in the proprietary fund arise from outside contributions of capital assets, or from grants, or outside contributions of resources restricted to capital acquisition and construction.

J. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Authority and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

K. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

L. Liability for Compensated Absences

The Board does not record a liability for compensated absences. The amount which may be accrued is undeterminable at the date of the balance sheets. It is estimated the amount would be immaterial to the presentation of the financial statements as a whole.

M. Budget

The Authority's annual budget is required to be adopted at least thirty days before the beginning of each fiscal year. Certified copies of the budget are submitted to each of the contracting governments. The annual budget includes estimated revenues and costs of operations, maintenance, and repairs of the plant, and development of the municipalities' interceptors for the fiscal year.

NOTE 3. DEFINED CONTRIBUTION PLAN

The Authority has established a Money Purchase Pension Plan (the "Plan") under Section 457 of the Internal Revenue Code. The plan allows all non-union employees to make volunteer contributions to the plan up to 15% of eligible compensation. This plan was dissolved effective January 1, 2007.

The Authority contributes 7% - 9% of an eligible employee's compensation to be divided between the plan and an individual life insurance policy. All non-union employees who are employed for at least 1,000 hours during a plan year, have at least one year of service, and are twenty-one years of age are eligible to participate. For 2006 and 2005, total contributions were \$9,337 and \$33,824, respectively.

NOTE 4. DEPOSITS AND INVESTMENTS

The Authority's deposits and investments at December 31, 2006 and 2005, are included on the balance sheet under the following classifications:

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 638,867	\$ 559,789
Certificates of deposits	-	329,348
Restricted cash and cash equivalents	-	500,000
	<u>\$ 638,867</u>	<u>\$ 1,389,137</u>

The Authority has adopted GASB No. 40, *Deposits and Investment Risk Disclosures*. The modified disclosures required by GASB No. 40 are reflected below.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rate within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated several banks for the deposit of its funds. The board follows policies in accordance with Public Act 196 of 1997, and has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investments are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year-end, the Authority had \$454,176 of bank deposits (checking) that were uninsured and uncollateralized. The Authority believes that due to the dollar amount of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy does not restrict investment maturities, other than commercial paper, which can only be purchased with a 270 day maturity. At year-end, the Authority had no such investments.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Authority has no investment policy that would further limit its investment choices, and had no investments at year-end.

NOTE 5. RECEIVABLES AND PAYABLES

Receivables consist of accounts (fees) and are considered collectible in full, while payables are for normal trade expense. Both are summarized as follows:

	<u>2006</u>	<u>2005</u>
Accounts Receivable:		
Charges for services	<u>\$ 482,214</u>	<u>\$ 195,557</u>
Accounts Payable:		
Trade	<u>\$ 57,917</u>	<u>\$ 92,887</u>

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	<u>Balance at 1/1/2006</u>	<u>Additions</u>	<u>Disposals/ Reclass</u>	<u>Balance at 12/31/2006</u>
Assets not being depreciated:				
Construction-in-progress	<u>\$ 9,911,000</u>	<u>\$ 902,031</u>	<u>\$ (10,592,127)</u>	<u>\$ 220,904</u>
Capital assets being depreciated:				
Equipment	<u>\$ 619,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 619,168</u>
System Improvements	<u>4,171,765</u>	<u>-</u>	<u>10,592,127</u>	<u>14,763,892</u>
Vehicles	<u>123,828</u>	<u>16,013</u>	<u>(16,975)</u>	<u>122,866</u>
Subtotal	<u>\$ 4,914,761</u>	<u>\$ 16,013</u>	<u>\$ 10,575,152</u>	<u>\$ 15,505,926</u>
Accumulated Depreciation:				
Equipment	<u>\$ 244,678</u>	<u>\$ 27,604</u>	<u>\$ -</u>	<u>\$ 272,282</u>
System Improvements	<u>730,349</u>	<u>374,112</u>	<u>-</u>	<u>1,104,461</u>
Vehicles	<u>78,491</u>	<u>15,673</u>	<u>(16,975)</u>	<u>77,189</u>
	<u>\$ 1,053,518</u>	<u>\$ 417,389</u>	<u>\$ (16,975)</u>	<u>\$ 1,453,932</u>
Net capital assets being depreciated	<u>\$ 3,861,243</u>			<u>\$ 14,051,994</u>
Net capital assets	<u>\$ 13,772,243</u>			<u>\$ 14,272,898</u>

Depreciation expense of \$417,389 was charged directly to operations.

NOTE 7. BRIDGMAN AGREEMENT

The City of Bridgman, an existing customer of the Authority, was admitted as a fifth constituent member of the Authority. As part of the buy in agreement, the City of Bridgman agreed to the following contributions:

- One half the estimated cost of expansion (\$3,068,461)
- \$75,000 contribution for administration
- \$45,450 contribution to the main plant
- \$1,004,550 contribution for interceptors

NOTE 8. CONDUIT DEBT

On September 24, 2004, the GRSD Sewer Authority issued General Obligation Limited Tax Bonds for the design, acquisition, construction, and equipment improvements for expansion of the plant.

The Authority has contracted with the Cities of Bridgman and New Buffalo and the Township of New Buffalo to finance their respective portions of the project. Chikaming and Lake Charter Townships used funds on hand to pay their respective portions of the project.

The proceeds of the debt were allocated in the following proportions:

Bridgman City	41.10%
New Buffalo City	19.38%
New Buffalo Township	39.52%

The bonds are being issued pursuant to the provisions of Act 233 and resolutions adopted by the Authority and the Contracting Municipalities. The Bonds are issued in anticipation of and are payable solely from certain contractual payments to be made by the Contracting Municipalities to the Authority. The municipalities have pledged their limited tax, full faith, and credit for the payment of their respective proportion. The Authority has irrevocably pledged such payment against the principal and interest on the Bonds. The Bonds are not general obligations of the Authority and the Authority has no taxing power.

As of December 31, 2006, the total amount of outstanding conduit debt is \$7,860,000.

NOTE 9. WEESAW TOWNSHIP AGREEMENT

The Authority entered into a twenty year agreement with Weesaw Township (the "Township") to provide sewage treatment services for wastewater originating in the Township. The Authority agreed to provide up to a maximum amount of 100,000 gallons per day. The Township shall, at its own expense, construct, establish, maintain, repair and own a sewer main including lift stations or other equipment connecting into the Chikaming Township system. The agreement may be terminated after two years or more with a written notice, and at any time after the first fifteen years of the agreement term. The agreement only applies to the phase 1 of the construction regarding the tie-in by the Township into the system. Any additional sewer construction shall require an amendment to the agreement. At December 31, 2006, \$3,257 of fees was received.

NOTE 10. UNION

The employees have ratified a vote authorizing the International Union of Operating Engineers, Local 324, to represent them for purposes of Collective Bargaining. A three (3) year agreement was approved for January 1, 2006 through December 31, 2008.

NOTE 11. DEFINED BENEFIT PENSION PLAN

Effective January 1, 2006, the Authority contributed to the Operating Engineers' Local 324 Pension Fund (the "Plan"), a multiemployer defined benefit pension plan administered by the Central Pension Fund of the International Union of Operating Engineers and Participating Employers. The plan issues a publicly available financial report. The report may be obtained by writing to the Central Pension Fund, 4115 Chesapeake Street NW, Washington, D.C. 20016.

The obligation to contribute to and maintain the plan for these employees was established through the union contract between the Authority's board of directors and union employees, and requires the Authority to contribute \$1.55 per hour for all hours paid each employee. This resulted in a contribution of \$29,315 for the year ended December 31, 2006. The contribution for the year ending December 31, 2007 will be \$1.60 per hour worked.

NOTE 12. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, unemployment claims, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance to minimize its exposure to loss in these areas.

NOTE 13. REPORTING CHANGE

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for governmental entities in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2010.



ACCOUNTANT'S REPORT ON SUPPLEMENTARY INFORMATION

Board of Directors
GRSD Sewer Authority

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the GRSD Sewer Authority's basic financial statements. The following schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Schaffer & Layher
May 11, 2007

David Schaffer, CPA
Michael Layher, CPA
Founding Partners:
Morris McMurray, CPA
Raymond Marks, CPA
Jeff Edmunds, CPA

GRSD SEWER AUTHORITY

SCHEDULE OF NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY
DECEMBER 31, 2006
(with comparative totals for 2005)

	Operations	Capital Projects	2006	2005
Assets				
Current assets:				
Cash and cash equivalents	\$ 487,414	\$ 151,453	\$ 638,867	\$ 559,789
Certificates of deposit	-	-	-	329,348
Accounts receivable	140,351	341,863	482,214	195,557
Due from other fund	-	-	-	54,240
Prepaid insurance	3,238	-	3,238	3,236
Total current assets	<u>\$ 631,003</u>	<u>\$ 493,316</u>	<u>\$ 1,124,319</u>	<u>\$ 1,142,170</u>
Restricted assets:				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 500,000
Capital Assets	<u>\$ -</u>	<u>\$ 14,272,898</u>	<u>\$ 14,272,898</u>	<u>\$ 13,772,243</u>
Total Assets	<u>\$ 631,003</u>	<u>\$ 14,766,214</u>	<u>\$ 15,397,217</u>	<u>\$ 15,414,413</u>
Liabilities:				
Accounts payable	\$ 52,346	\$ 5,571	\$ 57,917	\$ 92,887
Due to other fund	-	-	-	54,240
Payroll taxes payable	1,604	-	1,604	1,985
Total Liabilities	<u>\$ 53,950</u>	<u>\$ 5,571</u>	<u>\$ 59,521</u>	<u>\$ 149,112</u>
Net Assets				
Invested in capital assets	\$ -	\$ 14,272,898	\$ 14,272,898	\$ 13,772,243
Restricted for capital purposes	-	-	-	500,000
Unrestricted	577,053	487,745	1,064,798	993,058
Total Net Assets	<u>\$ 577,053</u>	<u>\$ 14,760,643</u>	<u>\$ 15,337,696</u>	<u>\$ 15,265,301</u>
Total Liabilities and Net Assets	<u>\$ 631,003</u>	<u>\$ 14,766,214</u>	<u>\$ 15,397,217</u>	<u>\$ 15,414,413</u>

See accompanying notes and auditor's report on supplementary information.

GRSD SEWER AUTHORITY**SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR OPERATIONS AND CAPITAL ACTIVITY****DECEMBER 31, 2006**

(with comparative totals for 2005)

	Operations	Capital Projects	Actual		Budget 2006
			2006	2005	
Operating Revenues					
Sewer User Fees:					
City of New Buffalo	\$ 308,699	\$ 63,116	\$ 371,815	\$ 321,948	\$ 323,213
Chikaming Township	308,725	24,111	332,836	321,743	382,872
New Buffalo Township	98,297	2,082	100,379	107,996	105,333
Lake Charter Township	269,365	27,917	297,282	278,562	286,045
City of Bridgman	222,353	15,396	237,749	227,822	234,886
Weesaw Township	3,257	-	3,257	3,257	3,322
Other Fees:					
Waste hauling	84,435	-	84,435	71,214	71,100
Services rendered	47,742	248,815	296,557	64,292	46,700
Total operating revenues	\$ 1,342,873	\$ 381,437	\$ 1,724,310	\$ 1,396,834	\$ 1,453,471
Operating Expenses					
Salaries and wages	\$ 478,508	\$ -	\$ 478,508	\$ 462,821	\$ 474,598
Payroll taxes	37,695	-	37,695	36,222	36,102
Employee benefits	159,914	-	159,914	249,763	161,500
Depreciation	-	417,389	417,389	145,254	149,000
Office supplies	1,747	26	1,773	1,801	2,500
Operating supplies	104,595	-	104,595	72,864	94,000
Professional fees	15,301	1,613	16,914	16,512	71,861
Legal	1,408	-	1,408	3,864	7,500
Board fees	4,200	-	4,200	4,620	4,600
Sludge disposal	56,556	-	56,556	53,995	45,000
Communications	15,594	-	15,594	15,991	23,500
Training and transportation	2,371	-	2,371	2,827	4,400
Insurance and bonds	84,268	-	84,268	62,775	74,000
Utilities	236,781	-	236,781	185,882	206,000
Equipment and sewer repairs	47,668	7,881	55,549	45,973	90,500
Vehicle repairs	7,452	-	7,452	6,788	10,500
Uniforms	5,725	-	5,725	4,648	4,600
Miscellaneous	29	-	29	540	-
Total operating expenses	\$ 1,259,812	\$ 426,909	\$ 1,686,721	\$ 1,373,140	\$ 1,460,161
Net operating income (loss)	\$ 83,061	\$ (45,472)	\$ 37,589	\$ 23,694	\$ (6,690)
Non-operating income (expenses):					
Intra-fund transfers	\$ (2,986)	\$ 2,986	\$ -	\$ -	\$ -
Sale of fixed assets	-	2,050	2,050	1,415	-
Interest income	13,345	19,411	32,756	100,019	6,690
Total non-operating income (expense)	\$ 10,359	\$ 24,447	\$ 34,806	\$ 101,434	\$ 6,690
Change in net assets	\$ 93,420	\$ (21,025)	\$ 72,395	\$ 125,128	\$ -
Net Assets, Beginning of Year	483,633	14,781,668	15,265,301	15,140,173	15,140,173
Net Assets, End of Year	\$ 577,053	\$14,760,643	\$15,337,696	\$15,265,301	\$15,140,173

See accompanying notes and auditor's report on supplementary information.